

Infoeuro

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Jacques Santer, President of the European Commission

The euro, instrumental in forging a European identity



The decision to establish the euro which the Heads of State and Government took in Brussels on 2 May would, only a short while ago, have appeared Utopian: eleven Member States out of fifteen were deemed to have qualified to adopt the single currency on 1 January 1999, based on a rigorous interpretation of the conditions laid down by the Treaty. So, having withstood several years of heated debate, uncertainties and occasional crises, the euro will become a reality on the declared date in a large number of participating States.

In the end, determination gained the upper hand over scepticism. Spurred on by the intrinsic quality of the project, the prospect of the advantages which the euro would bring and the unremitting efforts of Community institutions, the Member States chose the right path. The decision of 2 May crowns their efforts.

This decision marks, first and foremost, the culmination of the ceaseless work of all the Community institutions since the publication of the Commission Green Paper in May 1995. Indeed, the project would not have been credible or even feasible if the technical framework for putting the euro into operation had not been negotiated and set up in good time.

A further important step forward was made during the weekend of 1 May. The decisions taken then

made it possible to envisage the introduction of the structures required for conducting the single monetary policy and the fixing of the conversion rates between the euro and the national currency units, in a non-emotional context for the greater benefit of a solid euro. In sum, the definition of the exact configuration of the euro zone and finalization of the technical and institutional framework for EMU now provide business firms with extra impetus to speed up their technical preparations and commit investments with a view to a rapid transition to the euro.

The decision of 2 May also crowns the remarkable progress achieved by the Fifteen towards convergence over recent years: the very low (and steadily falling) level of inflation has brightened the outlook for economic operators and maintained household purchasing power. The reduction in public deficits alleviates pressure on financial markets and interest rates, which benefits business firms. Stable exchange rates make it possible to take greater advantage of the freedom of movement afforded by the single market and presage the participating Member States' ability to operate with the same currency. Finally, the historically low level of long-term interest rates is a measure of the confidence placed in the health of European economies. These efforts have not been in vain. They are starting to bear fruit in the form of renewed growth with forecasts of +2.8% for 1998 and +3% for 1999.

(> 8)

Into the home straight

The Heads of State and Government meeting in Council on 2 and 3 May 1998 took key decisions and adopted the practical measures required to introduce the euro on 1 January next year.

The countries which will be introducing the euro on 1 January 1999 are Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland.

The Heads of State and Government chose the chairman and other members of the executive board of the European Central Bank (with

the appointment coming into effect after a hearing organized by the European Parliament). Mr Wim Duisenberg is the president of the ECB, Mr Christian Noyer is its vice-president. The members of the executive committee are Messrs Otmar Issing, Tommaso Padoa Schioppa, Eugenio Domingo Solans and Mrs Sirkka Hämäläinen.

They issued a preliminary announcement concerning the bilateral exchange rates between the participating currencies (these rates are published in the special insert in this issue).

Finally, the Council endorsed the Commission's recommendations concerning the practical aspects and adopted the secondary legislation required for transition to phase III of EMU.



Yves-Thibault de Silguy, European Commissioner

A real culture of stability has emerged in Europe

Inf€ Are you confident of the criteria for long-term convergence?

Absolutely, because a real culture of stability has emerged in Europe. In the late eighties and early nineties, everybody's attention was focused on inflation, which is no longer a concern today. Then it switched to the 3% target and the ability to sustain efforts to reduce public deficits in the long term. This is now no longer an issue either. At the moment debt is the criterion on which all eyes are focused. It is generally agreed that the policy being followed is the right one and that it is yielding results. We have set up a number of systems, improved the coordination of economic policies and provided a whole battery of procedures and corrective measures in the event of any slippage. The Commission has a central role to play because it is responsible for monitoring national economic policies. Article 103 allows it to make recommendations should there be any slippage.

Inf€ Will the planned sanctions actually be applied if there is budget slippage?

These are real sanctions that will indeed be applied. However, they are the final stage in a process aimed precisely at identifying any slippage at the very earliest stage. The sanctions are at a sufficiently high level whilst still remaining credible in order to serve as a dissuasive measure for governments faced with uncontrolled pressure with regard to taxes or public spending.

Inf€ There are seven months left before the euro actually arrives. Do you fear any upheavals?

I do not have a crystal ball! Nevertheless, all the arrangements have been made to ensure that the transition takes place as smoothly as possible, including the preliminary announcement of the 'bilateral parities which will apply at the end of the year when the value of the euro is fixed. This gives the market some clear indicators, allowing it time to prepare and to keep in step with developments. If speculators swim against the tide they could lose a lot of money.

Inf€ Are you convinced that the euro will be a strong currency?

The value of a currency cannot be decreed in advance. It is the market which determines this value based on its assessment of a given economic situation in a given country at a given time. It is therefore impossible to guess at the parity of the euro against the dollar. I am nonetheless convinced that the euro will be a stable currency, for several reasons: the criteria have been strictly applied, the European Central Bank is independent with price stability as its objective, and provisions have been made to ensure that national economic policies are conducted in a stable and coherent manner.

Inf€ What are the issues which still need to be fine-tuned before 1 January 1999?

Firstly there is the matter of the external representation of the euro, in particular in the IMF and the G7. Secondly, there are a number of essentially technical issues to be settled, such as dual pricing, the duration of dual currency circulation and even bank charges. Guidelines have been drawn up which now need to be finalized. The third and fundamental issue is setting up the workings of Economic and Monetary Union. We have created instruments and mechanisms and now we must make them work. Finally, we need to prepare the general public and business firms.

Inf€ How can we reassure citizens who are apprehensive about the euro?

This is the aim of the communication campaigns being launched in the Member States which are financed under tripartite agreements with the European Parliament and the European Commission. It is important for these campaigns to be conducted at national level because public perceptions differ from one country to another. Everywhere there are preconceived notions which have to be countered with suitable arguments. If clear and well-founded information is provided this will break down psychological barriers and allow the needs of citizens to be met.

Inf€ How can all business firms, especially SMEs, be encouraged to prepare for the euro?

By telling them that the euro is not simply an arithmetic calculation but a strategic operation. It will open up their markets, and it will allow them to pay their staff in the same currency as they use to invoice their products. Business firms are going to achieve savings in terms of administration, conversion costs and foreign exchange commissions. The euro therefore represents a really fundamental change that involves all sectors of an enterprise and calls for in-depth thinking. The faster a business firm starts preparing for the euro, the better it will be able to take advantage of the euro.

Inf€ What is the main challenge to be faced between now and 1 January 2002?

To ensure that citizens consider the exchange of notes and coins as the logical conclusion of a well-thought-out process that has been properly planned and does not create any disruption.

Europe's big businesses are preparing for the euro; SMEs must now follow suit

As €-day approaches, preparations are gathering pace across the European Union in banks, financial services, manufacturing and service enterprises. In some businesses, there will be a growing sense of urgency about the great deal of work still needing to be done if they are to be ready to operate in euro from 1 January 1999. While others will certainly be more relaxed, all are feeling a mixture of tension and excitement about this major change in the economic landscape.

A few confident pioneers began in late 1995. They were joined by other multinationals in 1996 while in 1997 most big companies began at least to think about the problems involved in preparing for euro day. Now those that want to be ready for the euro from 1 January 1999 — or, in the case of banks, those that must be ready by then — are busily adapting their IT systems, planning dual price displays, launching communication and staff training plans, adjusting price and marketing strategies and preparing to switch their accounts and bookkeeping to the euro. Some are also looking for strategic partners to help them grow faster in a market whose single identity will at last have been confirmed by possession of just one currency.

The change-over to the euro is a hugely important event for banks, financial services, retailers and companies of every kind. If it is carefully planned and professionally executed, it can help to make enterprises more competitive and profitable. But those that leave it late risk being forced into making hurried changes without fully understanding how the euro will affect their businesses.

This is why the Commission has been broadcasting the message to enterprises, “prepare early and prepare thoroughly”, for the last three years. It has published its own brochure on the subject while also supporting the awareness-raising work of organisations such as the Association for the Monetary Union of Europe and the European Federation of Accountants, as well as many chambers of commerce. Governments, too, have now launched campaigns to mobilize enterprises and many are preparing their public administrations so that they can handle company accounts, tax returns and tax payments in euro.

In general, banks and most large companies are aiming at the very least to be able to make and receive payments in euro from 1 January 1999. To do so, they

have had to make important and, in some cases, major revisions to their IT systems in close partnerships with software suppliers. But sorting out the IT is only a part of a much broader challenge.

For all companies, large and small, facing up to this challenge begins with a decision to assess the impact of the euro on all their activities. Usually carried out under the supervision of a senior executive — frequently the Finance Director — the group making the assessment prepares a change-over scenario for approval by a strategic committee, whose members would be the heads of key functions such as accounting, legal, treasury and finance, marketing, IT and human resources. Detailed plans would be developed by special groups drawn from each of these functions. Many companies which operate in more than one country then appoint “euro champions” in each country, who are responsible for supervising the implementation of the change-over plan in that particular country.

This is the basic approach of enterprises across the EU, although there are many variations on it. Most tend to find that the implications of the change-over are broader and deeper than they thought. They may challenge a company's existing locations and structures (should it manage cash and treasury in different places when it could be handled in just one? should the treasury function be centralized now it is handling just one currency?), its pricing policies (how does one justify charging different prices in different markets?) and its marketing strategies (one European product, or different brands for different markets?).

Some close observers are concluding that not enough companies are focusing on the strategic opportunities presented by the euro, because they are too preoccupied by the day-to-day practical issues of changing over. Some companies have deliberately decided to give a priority to the practical essentials — above all IT — and to return to strategic issues in 1999 or 2000. But they may then find that they have already closed off certain options for themselves.

The race is on to make the most of the euro. Sadly, too many small and medium-sized enterprises in too many Member States have scarcely begun to address the challenge. With Europe's population of large enterprises now beginning to mobilize, it is vital for everyone to ensure that SMEs keep their appointment with their euro destiny.



Conversion costs: principles of good practice

The Commission's recommendations on conversion costs have been welcomed by the Ecofin. They are very clear: bank customers will not have to pay additional costs for changing over to the euro.

In early May the European Council endorsed the Commission's recommendations on bank charges for converting to the euro. This is the culmination of a process that began at the Round Table in May 1997 and continued within a group of experts representing the various players concerned. The report of the group of experts was submitted last February, and has served as the basis for drawing up the Commission's recommendations.

These recommendations include three provisions which the Commission considers form part of or directly result from legislation:

- the conversion, free of charge, of incoming payments in the national currency unit into the euro and vice-versa, between 1 January 1999 and 31 December 2001;
- the conversion, free of charge, of accounts denominated in the national currency unit into the euro at the end of the above period;
- for bank services denominated in euro, the application of an identical tariff to that used for services in the national currency unit.

Together with other provisions which form a coherent whole with the above:

- the conversion, free of charge, of outgoing payments in the national currency unit into the euro and vice-versa, between 1 January 1999 and 31 December 2001;
- the conversion, free of charge, of accounts denominated in the national currency unit into the euro unit between 1 January 1999 and 31 December 2001;
- after 1 January 2002, the exchange, without cost to customers (i.e. account holders), of notes and coins in the national currency for euro notes and coins, in the same proportions and frequencies as is customary. Banks must specify what these proportions and frequencies are.

In practice this means that, as from the beginning of next year, bank customers, citizens and business firms may not be charged for the conversion of their accounts into euros, nor for any transfers made from or into euros.

In order to avoid any ambiguity and to allow bank clients to know exactly what to expect, the Commission is recommending that banks work openly. For all conversions from a national currency unit into euros and vice-versa, as well as for the exchange of the notes and coins of participating States, banks are invited to clearly indicate the conversion rates used and to list separately any charges which may be deducted.

Banks which do not apply the above provisions are recommended to provide their customers with prior written information concerning the conversion costs which they propose to invoice, and with specific information concerning any deducted costs to be mentioned on statements of account.

Of course, these recommendations are of interest only if they are actually applied by the banks of the participating States. To this effect, the Commission is recommending that the principles of good practice should be applied between now and 1 January 1999, and that banks should inform their customers as soon as possible of their position regarding these principles. Suggested methods include the publication of a professional code of conduct, the insertion of provisions into national change-over plans, and displaying a symbol indicating that the bank has agreed to respect the principles of good practice. The Commission is asking the Member States to support the implementation of these recommendations, notably by making reference to them in all documents dealing with the subject.

Finally, the Commission wishes national authorities to pay special attention to citizens who do not possess bank accounts. It is necessary to study how best to allow them to exchange notes and coins easily, free of charge, in reasonable quantities and at a reasonable frequency.



Accounts: a strategic choice

For Göran Tidström, Vice-Chairman of the Federation of European Accountants, who is in charge of the euro project in the FEA, the euro presents no technical problems, but it requires strategic decisions.

Inf€ *At the end of 1997 you conducted a broad enquiry on the euro with over 2,100 European businesses. What was the main upshot of this?*

A third of the businesses we questioned had begun preparations for the introduction of the euro, and this permits us to state that a growing number of companies are getting mobilized. Amongst those that have done nothing so far, 58% consider that this is because of a lack of information. In other words, the more they are aware of the issues involved, the more they are mobilized.

Inf€ *Your enquiry also shows that larger companies are much more advanced. Isn't it a priority to heighten the awareness of SMEs?*

Of course, this is one of the goals we must all work towards, but it is no easy matter. In an SME, the decision to switch to the euro and the choice of the moment is taken by the owner, whose diary is already full to overflowing. We must explain to him that if he neglects this subject he is taking a major risk which may affect the survival of his business. Whatever its size, each undertaking must assess the impact of the euro in its business. It must know that the time factor is essential and that it will be off to a head start if it gets in before the competition. This is no less true for larger companies. Although many of them have already started preparing, they must be sure they have a complete picture of the issues involved. Transparent pricing and costing, for example, is a factor of both internal and external competition. Clearer comparison between results and needs for financing within an individual group, will influence management decisions, particularly as regards the allocation of resources.

Inf€ *Apart from the fact that the euro will be indispensable in order to preserve or improve competitiveness, must companies consider the switch as an expensive operation?*

Many commentators often speak of the costs of the change. In point of fact, we are convinced that there are substantial savings to be made. With the exception of the particular case of retail sales, the studies show that the investments necessary for the switch

will be paid off over a period of three to four years. Accountants must make sure that the transition plans correctly reflect these savings opportunities.

Inf€ *More specifically, have not accountants an essential part to play in informing their clients?*

In the FEA, we very soon came to realize that the part played by accountants in the change-over process was not limited to the technical aspects of producing accounting and financial reports. On the contrary, we are perfectly aware that accountants are doubtless in the best position to explain the implications of the passage to the euro in all the aspects of the life of the undertaking. We must get our clients to understand that the euro is an economic revolution which will change price, cost and financing structures radically for the great majority of European companies, whether or not their country participates in the first round of the euro. We must keep telling managers that the euro is not just another currency that can be simply processed with a multi-currency accounting programme.

Inf€ *Do you give the same message to the members of your federation in order for them to be ready to respond to their clients' needs?*

Accountants would be making a serious mistake if they were to imagine they were concerned only with the company accounts. They have the major responsibility of ensuring that company leaders grasp the importance of the issue, and that their preparation agenda reflects this perception. We feel the message has got through quite well in the large accountancy and auditing firms, even though work remains to be done in order to explain the importance of the euro to everyone. However, one of our goals is to get this message through to the small firms. We want them to understand that their clients' interest in the euro is going to erupt, and that they must be capable of serving them. They cannot run the risk of being accused sooner or later of failing to inform the undertaking of the importance of the issue. Within the FEA, we have already repeated this message several times, but we must face the fact that it has not got through to everyone yet.

The euro and information technology: a strategic challenge

Unlike the change of the millennium which is essentially technical, the switch to the euro is above all a competitive challenge for companies.

The change of date from 31 December 1999 to 1 January 2000 will have a considerable impact on all businesses, although it will be essentially technical. If we compare it to the switch to the euro, it is because both have major implications for computer technology and because it is often the same CSCs (computer service companies) that deal with them. But that is as far as the comparison goes. Although it has obvious technical aspects, the switch to the euro must be considered primarily in terms of strategy for the company, whatever its size.

In October 1997, the European Commission organized a 'Euro IT Forum' which showed that numerous sectors were asking for more information on the implications of the euro as regards information technologies and, above all, specific information for their needs. Two targets were identified as being the most vulnerable: on the one hand, small and medium-sized enterprises with limited computer technology resources of their own and an insufficient level of programme development and, on the other hand, small and medium-sized companies in the computer technology sector working on local markets. The Commission then held a meeting attended by the leading computer programming and computer technology service firms, about twenty representatives of major companies with very advanced euro projects and, lastly, representatives of the Euro Info Centres, of professional associations and of chambers of commerce.

This work made it possible to perfect an application model which should help organize the circulation of information. This starts with the rules decided on by the Council (rules concerning conversion and rounding, the continuity of contracts, the utilization of the euro symbol, etc.), where all the major issues have been settled. It continues at national level where the situation is developing very fast but is still different from one country to another. On this basis it is possible to devise a method of "best practice information", by referring to studies of very concrete cases (large businesses, financial institutions, professional associations, etc.), to efforts to motivate different agents, to methods for identifying the best

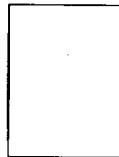
changeover strategies and, finally, to the availability and utilization of existing resources.

To concentrate all this information and to distribute it, the World Wide Web was the obvious choice. The Commission site devoted to the impact of the euro on company information technology is much visited (<http://www.ispo.cec.be/y2keuro>). However, the Web cannot guarantee reaching absolutely all targets, particularly the SMEs, and so it has become evident that intensive use must be made of primary channels for the circulation of information, such as chambers of commerce, professional associations, banks and other consultants which are in direct contact with companies. This approach makes it possible to develop more specific information which takes into account the size of the companies and their sectors of activity.

Indispensable Efforts

Without a doubt, the introduction of all these information channels responds to an urgent need. Everyone the Commission has consulted insists on the fact that the switch to the euro requires immediate attention to make sure that it remains manageable in terms of information technologies. Whatever their size, companies must understand that the switch to the euro is more a question of strategy than a technical problem. They must adapt their information technology systems to prepare for the euro, but above all they must preserve a competitive position. Although it is theoretically possible to wait until 1 January 2002, the market will impose switching at an earlier date in the great majority of cases. Unless all the companies switch before the final date, they will be endangering their future. For all businesses, the change to the euro requires basic reflection, installing technical resources, and faultless execution. The experts tell us that a medium-sized company needs at least 12 months to test the new systems: in other words, the preparation work must be completed by 1 January 2001 at the latest.

Certainty is now total, the legal framework is ready and the technical solutions are there: no further time should be lost in preparing for the euro.



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For stock exchanges, Monday 4 January 1999 will be "€-Day"

04/01/99

The Federation of European Stock Exchanges published in February 1998 its second report on the transition to the euro (*). In his introduction to this document, Antonio J. Zoido, Chairman of the Federation, explains why the choice of the European stock exchanges to switch to the euro at the beginning of 1999 was essential: *"This decision showed the way and influenced the other organizations, while facilitating the transition for those active on the transferable securities markets, for whom it was vital to have clear, precise decisions regarding the date and the manner of the switch. Furthermore, it is interesting to observe that the main markets of the countries not intending to participate in the first wave have also felt the need to prepare themselves for the impact of the new European currency"*.

The following *joiner* stock exchanges therefore decided to prepare the switch to the euro well before the decision on the participating countries was taken: Amsterdam, Brussels, Dublin, Helsinki, Lisbon, Luxembourg, Madrid, Paris, Vienna, the Deutsche Börse and the Borsa Valori Italiana. The other stock exchanges that are members of the Federation of European Stock Exchanges constitute the group of *non-joiners*. These are Athens, Copenhagen, Iceland, London, Oslo, Stockholm and the Swiss Stock Exchange.

The "big bang"

In spring 1997, the eleven *joiner* stock exchanges took the decision to quote, exchange and process securities in euros as from 4 January 1999. Thus the quotations will be given in euros and, if necessary, in euro-cents. Investors will be able to continue to give their orders in national currencies and the intermediaries are obliged to convert them. It is therefore to be expected that investors will rapidly start giving their limit orders in euros, even though the principle of "no obligation no prohibition" is totally applicable in this situation. Among the *non-joiners*, the Stockholm Stock Exchange and the Swiss Stock Exchange are preparing to use the euro from 4 January 1999 for quoting the shares of large international companies. London has planned the possibility of quoting the most widely-traded securities in euros as well as sterling, but the indices will continue to be calculated in sterling.

Transition week-end

The second half of the current year will be used by the stock exchanges in order to test the different systems involved in the switch to the euro. Nonetheless, the key moment will be the transition

weekend from 1 to 3 January 1999 which will make it possible to incorporate the conversion rates into the information technology systems. Seven of the *joiner* markets will close on 31 December (Amsterdam, Brussels, Deutsche Börse, Helsinki, Luxembourg, Paris and Vienna), but the other four will remain open on Friday 31 (Dublin, Borsa Valori Italiana, Lisbon and Madrid).

All the stock exchanges will cancel the orders that have not been executed on the last day of opening in 1998. The Amsterdam, Brussels, Luxembourg and Paris markets will be open on Saturday 2 January 1999 to introduce or reintroduce orders expressed in euros. The transactions made in 1998 with payment on 4 January 1999 or later will be converted and paid in euros on all markets except Vienna. There will be no need to reconfirm transactions. It should be noted that from 4 January 1999, the systems of the stock exchanges in the *joiner* countries will be adapted to the use of euro-cents.

After 4 January 1999

As regards transactions, the switch to the euro will have no direct effect on equities, the nature and value of which will not be influenced by the change. The choice of expressing the nominal value in euros or in a national currency lies with the issuer. This has no influence on the quotation, the transaction and the payment of the operations, since it is the stock market authority alone that chooses the currency of the quotation, the euro in the present case.

The case of bonds is different to the extent that the nominal value constitutes the basis for expressing the orders. The euro will be used for bonds that have been redenominated, whereas national currencies will remain applicable for the other cases. Intermediaries, however, will trade and settle in euros, whereas clients will be free to choose between the euro and the national currency. In the case of obligations redenominated in euros, it is recommended to use round figures (100 euros, 1,000 euros, etc.) with the option for the banks to buy back the fractions of lots in order to reconstitute complete ones.

The report of the Federation of European Stock Markets deals with several other subjects affecting the switch of the markets to the euro such as, for example, the publication of financial information, indices and historical data.

From the first days of next year, the stock markets of the participant countries will set their clocks to the euro. Seven months before "€ Day", they are making active preparations.



* Reference : *The Transition to the euro, second report*, February 1998, Federation of European Stock Exchanges

Double circulation: as short as possible

The duration of the period of double circulation is one of the few important subjects that still needs to be decided. Opinions are converging in favour of a short period.

The euro will be a reality from next 1 January, but numerous European citizens will really discover it only in January 2002 when the coins and banknotes are introduced. It is an operation on a major scale, since it is estimated that at present in the European Union there are 12 billion banknotes and 70 billion coins in circulation, 200,000 cash distributors and over ten million automatic machines using coins and banknotes. The choice of the duration of the period of double circulation is thus a strategic decision being actively worked on by the European Commission, in consultation with all those concerned by the problem.

The duration of the period of double circulation was defined as follows at the Council of Madrid in December 1995: *"On 1 January 2002 at the latest, the euro banknotes and coins will begin to circulate alongside the national banknotes and coins. Within six months at the most, the national currencies will have been totally replaced by the euro in all the participant Member States and the change to the common currency will be completed"*. This text imposes only a maximum period of six months and leaves the participant States the option of completing the change in a shorter period.

During the round table on 26 February this year, the different speakers concerned were able to give their viewpoint. To sum up, we can say that the commercial sector is in favour of the shortest possible period, the banks plead for rapid replacement as long as they get logistic back-up, and consumers are more hesitant because they are afraid

of a change that is too rapid to leave them enough time to get used to a new scale of prices.

The question of the consumers is more delicate because there is varied perception of the psychological barriers with regard to the new coins and banknotes. For the European Commission, the period of double circulation must be envisaged as the end of a process for the consumer rather than as a period of adaptation. In practice, for example, someone paying his purchases with a national currency banknote will not be able to refuse his change in euros. The 'gymnastics' of calculation will become much more complex, and there may well be abuses. The work of accustoming consumers must start as soon as possible so that they are familiar with the value of the euro before the coins and banknotes are introduced. In many countries, the information campaigns have already been launched. They will get up to speed as soon as the double price lists are available in January 1999.

Overall, the Commission is convinced of the merits of a very short period. Furthermore, it might be useful to avoid too great a difference in the duration of the periods of double circulation from one country to another. Nevertheless, the most important point is for the national authorities, whose decisions remain entirely sovereign, to announce their intentions as soon as possible. The Commission invites them to make this announcement by the end of 1998 at the latest. It is also organizing a meeting in the coming weeks between national experts in order to identify the best proposals.



The example of Germany

Germany's currency unification in 1990 gave the Federal Republic experience in substitution of paper money, which none of its partners has had in the recent past. On the basis of this, the Bundesbank and the German Ministry of Finance proposed in December 1997 an extremely rapid transition for the introduction of the new coins and banknotes. The DM will cease to be legal currency on 1 January 2002: in other words, no-one will be able to be forced to accept it in payment from that date onwards. In order to cope with the difficulties of owners of automatic machines, the German government is studying the possibility of maintaining the old coins in technical circulation for a few weeks. Furthermore, it is hoped that the commercial sector and the banks will cooperate on a voluntary basis rather than having to resort to new laws. These guidelines are of particular interest, inasmuch as Germany is the country in which paper money is the most used form of payment.

Inf€uro

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Countdown to the
Euro
the course is set for
1 January 1999



Euro keywords

€ European Central Bank:

the essential mission of the ECB is to ensure the stability of prices within the euro area. It is directed by a Council composed of the governors of the central banks of the eleven participating Member States. The ECB is independent and is managed by a board of directors who are appointed for eight years and cannot be re-elected. The ECB has its headquarters at Frankfurt.

€ Convergence criteria:

conditions that must be met by a Member State for its currency to be included in the euro. The four principal criteria are: a balance of payments deficit of less than 3% of GDP, a public debt of less than 60% of GDP, inflation not more than 1.5% above the average of the three best levels of the Member States, and a long-term interest rate which may not be more than 2% above the rates of the three countries with the lowest inflation rates.

€ Ecu:

it will be exchanged on 1 January 1999 at the rate of 1 Ecu = 1 euro. It will disappear on this date.

€ European Monetary Institute:

the EMI made the preparations for setting up the ECB and the other monetary policy tools. It also expressed its opinion on convergence within the Union. It will disappear once the ECB is launched.

€ European Exchange Mechanism:

also known as the ERM2, it governs the exchange rate relations between the euro and the currencies of the "pre-in" countries.

€ Pact for Stability and Growth:

a contract between the countries participating in the euro in order to ensure respect for budget discipline and limiting of public deficits. It includes sanctions in the case of non-respect for the criteria of euro membership.

€ European System of Central Banks:

defines and implements the common monetary policy. It is also responsible for printing and putting into circulation the euro coins and banknotes. All the member countries are represented in it whether or not they are part of the euro area.

€ Definitive Conversion Rates:

the definitive conversion rate between each of the currencies participating in the euro. This rate will be fixed by the Council on 1 January 1999.

€ Treaty on European Union:

The Treaty of Maastricht (2.2.1992) defined the three stages designed to lead to the introduction of the euro. It was ratified by the Treaty of Amsterdam.

Bilateral exchange rates preannounced on 2 May 1998

	D 100 DEM	B/L 100 BEF/LUF	E 100 ESP	F 100 FRF	IRL 1 IEP	I 1000 ITL	NL 100 NLG	A 100 ATS	P 100 PTE	FIN 100 FIM
€	€									
D DEM	€									
B BEF	2062.55	€								
L LUF		€								
E ESP	8507.22	412.462	€							
F FRF	335.386	16.2608	3.94237	€						
IRL IEP	40.2676	1.95232	0.473335	12.0063	€					
I ITL	99000.2	4799.90	1163.72	29518.3	2458.56	€				
NL NLG	112.674	5.46285	1.32445	33.5953	2.79812	1.13812	€			
A ATS	703.552	34.1108	8.27006	209.774	17.4719	7.10657	624.415	€		
P PTE	10250.5	496.984	120.492	3056.34	254.560	103.541	9097.53	1456.97	€	
FIN FIM	304.001	14.7391	3.57345	90.6420	7.54951	3.07071	269.806	43.2094	2.96571	€

These rates are indicative. They have no legal value. They may not be included in information technology systems, nor be used as a basis for calculating definitive conversion rates. Companies using these rates do so at their own risk.

Timing	Actions	Responsibility
May/June 1998	<ul style="list-style-type: none"> • Creation of the ECB* and appointment of its executive board • Start production of euro banknotes and coins • Adoption of necessary secondary legislation 	<ul style="list-style-type: none"> • Council (Member States participating in EMU) • Member states and national central banks • Commission proposes, Council decides
1 January 1999	<ul style="list-style-type: none"> • Conversion rates are irrevocably fixed and legislation comes into force, notably on the legal status of the euro • Definition and execution of the single monetary policy in euro • Foreign exchange operations in euro • New public debt issues in euro, some outstanding debt redenominated in euro • Many large companies begin issuing invoices and making payments in euro • Banks begin converting payments in national currency units into euro for euro accounts 	<ul style="list-style-type: none"> • Council based on a Commission proposal • ESCB* • ESCB • Member States, European Investment Bank, Commission and other issuers
1 January 1999 to 31 December 2001	<ul style="list-style-type: none"> • Change-over to the euro by the banking and finance industry • Assist the whole economy in an orderly change-over (IT, accounting, dual display of prices, etc.) • Information campaigns for the citizen 	<ul style="list-style-type: none"> • Commission and Member States • Commission and Member States
1 January 2002	<ul style="list-style-type: none"> • Start circulation of euro banknotes • Start circulation of euro coins • Complete change-over to the euro of public administrations 	<ul style="list-style-type: none"> • ESCB • Member States • Member States
1 July 2002 at the latest	<ul style="list-style-type: none"> • Cancel the legal tender status of national banknotes and coins 	<ul style="list-style-type: none"> • Member States, ESCB

Dual pricing, essential for familiarizing people with the euro

Between 1 January 1999 and 31 December 2001, dual pricing will play a key role in familiarizing consumers with the euro. The Commission's recommendations, endorsed by the Council, specify how dual pricing must be used.



The reasons given in the Commission communication on the subject of dual pricing clearly set out what is at stake: *"Dual display of prices and amounts will greatly facilitate the transition to the euro for consumers, retailers and service providers, and in particular it will contribute significantly to educating and protecting consumers"*.

It also emerged during the preparatory work that dual pricing is a vital element in the transition period, not only for consumers, but also for all economic operators. It has now become clear that the retail trade, as well as the financial and public sectors, will practise dual pricing.

Principles of good practice

Rather than adopting regulations at European level, the Commission prefers the sectors concerned to refer to the following principles of good practice:

- Traders will not be obliged to accept payments in euros between 1 January 1999 and 31 December 2001.
- The values mentioned on the dual pricing display must be calculated exclusively on the basis of the final conversion rates fixed on 1 January 1999, strictly respecting the rules on rounding to the nearest cent.



- Dual pricing must make a clear distinction between the currency unit in which the price has to be paid and the equivalent which is indicated for information purposes only.
- Too much information must be avoided since this could lead to confusion. Dual pricing could be limited to the final price to be paid by the consumer. On the sales receipt this would involve only the total.
- Traders should indicate in a visible manner whether or not they accept payments in euros between 1 January 1999 and 31 December 2001.

Implementation

The implementation of dual pricing must form part of a global communication strategy. As from 1 January 1999, dual price display should be used on documents that serve as points of reference, such as bank statements and public utilities invoices.

In the distribution sector, introduction should be gradual in line with consumer demand, the type of business and the products sold, the technical implications and the cost of modifying existing price display systems. Indeed, flexibility will be essential in order to reconcile the consumer's need for clear information with the need to keep operating costs to a minimum. It is necessary to take into account the diversity of price systems currently employed in the Member States, and the range of factors which influence the technical aspects of dual pricing. Finally, the specific needs of certain sectors of activity need to be considered (small retailers, travel agents, petrol stations, mail order merchants, etc.).

Professional organizations have an important role to play in setting up dual pricing, by studying the possibility of drawing up common dual pricing formats and helping their members to put them into practice.

VOLUNTARY AGREEMENTS

The national authorities should encourage consumers and professional associations to negotiate and conclude voluntary agreements concerning good practices, especially with respect to dual pricing and payment. In a similar vein, the Commission is recommending that business firms should agree on the basic principles for facilitating the transition of SMEs to the euro, particularly with regard to their commercial relations with large groups.

The Commission invites the Member States to create national or local observatories as the key means of monitoring developments. The form and operating methods of these observatories should be drawn mainly from existing structures and human resources.

Finally, the Commission stresses the importance of targeting information at SMEs and educational circles, notably by means of new technologies. It is also necessary to plan appropriate measures for all the various types of education (distance learning, continuing training for adults, etc.). Finally, special attention should be paid to children marginalized from the education system.



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Heads or Tails?

In June 1997, the European Council chose the common face of the euro coins at the end of a process entailing a design competition, initial selection by a jury of European personalities, an opinion poll and consultation with consumer associations. Since this date, most of the countries participating in the euro have published their design for the side that is reserved to them. Here we present the national obverses of the countries that have already made their choice.



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